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The Seven Stages of a Reserve Currency Death Cycle

If you have been following the history of global finance, you know that reserve currencies follow a predictable **seven-stage death cycle**. Currently, the **U.S. dollar is in Stage 5**. History provides us with a precise roadmap for what comes next, showing us exactly how Stages 6 and 7 unfold month by month and year by year.

We have four clear historical examples to learn from: **Portugal, the Netherlands, Britain, and now, the United States**. The transition from Stage 5 to a complete collapse typically takes between **10 and 20 years**, with an historical average of **18 years**.

- **Portugal** took 15 years.
- **The Netherlands** took 18 years.
- **Britain** took 22 years (from 1945 to 1967).

The U.S. dollar officially entered **Stage 5 in 2008** with the onset of massive money printing. We are now 17 years into that timeline, which puts us directly at the doorstep of the final two stages.

Understanding the Final Stages: Preparation vs. Collapse

The final two stages are not based on theory or speculation; they are historical facts documented most clearly during Britain's collapse.

- **Stage 6 (Loss of Confidence and Search for Alternatives):** This is the **warning period**. It is the moment when the world realizes the reserve currency is dying and begins searching for an exit. This is the preparation phase when "smart money" repositioned itself before the final crash.
- **Stage 7 (The Collapse):** This is the **currency crisis**. It is the moment of replacement, where decades of accumulated wealth can evaporate in just a few months.

The Roadmap: Britain’s Decline (1945–1967)

Britain’s experience provides the clearest roadmap for the dollar’s potential future.

The Debt Trap (1945) Britain’s Stage 6 began in 1945. Although they had won World War II, the victory destroyed their economy. The nation owed **enormous debts to America**, its industrial base was shattered, and its empire was fracturing. At the time, the pound was the world's reserve currency, valued at an **artificial rate of $4.03**. To survive, Britain had to beg the U.S. for a **$3.75 billion loan**.

The Run on the Pound (1947) The U.S. loan came with a condition: Britain had to make the pound "convertible," meaning anyone could trade pounds for dollars. When Britain attempted this in 1947, the result was a catastrophe. There was an **immediate run on the pound** as investors scrambled to get out. In just six weeks, Britain lost **25% of its dollar reserves**, forcing them to suspend convertibility.

Devaluation and the Loss of Dominance (1949–1955) By September 1949, the artificial exchange rate could no longer be sustained. The British government announced an **overnight devaluation of 30%**, dropping the pound's value from $4.03 to $2.80. If you held British pounds or bonds, you lost **30% of your wealth instantly**.

This shattered international confidence, leading to a permanent shift in global finance:

- **Diversification:** Throughout the 1950s, central banks began dumping pounds in favor of dollars.
- **The Flip:** By **1955**, the U.S. dollar officially overtook the pound as the world's largest reserve currency.
- **Trade Decline:** In 1945, Britain was the world's top trading nation; by 1960, it had fallen to third place, trailing behind the U.S. and Germany.

What This Means for the Dollar in 2025

The timeline for the British pound serves as a warning for the U.S. dollar. We are entering the window where **Stage 6 triggers**—such as the loss of confidence and the search for alternative currencies—are already beginning to accelerate. As we look toward the 2025–2035 window, understanding these historical triggers is essential for protecting wealth before Stage 7 arrives.

Analogy for Understanding: Think of a reserve currency like a **massive dam** holding back a reservoir of wealth. Stage 5 is when the first visible cracks appear—the water is still held back, but the pressure is mounting. Stage 6 is when those cracks begin to leak, and people living downstream start moving their belongings to higher ground. Stage 7 is the moment the dam finally gives way; the collapse is sudden, and those who didn't heed the leaks in Stage 6 lose everything in the flood.